

**MINUTES OF THE MEETING OF
THE ADVISORY COMMITTEE OF THE
LOCAL GOVERNMENT PROPERTY INSURANCE FUND**

Tuesday, April 16, 2002

PRESENT: Kevin Houlihan, Chair, City of Madison
Vince Marchetti, Vice Chair, Town of Necedah
Carole Charles, Outagamie County
Nick Evgenides, Brown County
Julie Helt, Village of Waunakee
John Keller, School District of Howard/Suamico
Don LaFontaine, City of Oshkosh
Glinda Loving, Milwaukee Metropolitan Sewage District
John Rath, Milwaukee County
Harold Reckelberg, Town of Luxemburg
Terry Siikarla, City of West Bend
Barb Wegner, Dane County
Eileen Mallow, Office of the Commissioner of Insurance
Dan Bubolz, Office of the Commissioner of Insurance

GUESTS: Greg Grunow, The ASU Group
Carrie Nash, The ASU Group
April Zelinski, The ASU Group
Dennis Tweedale, Devine & Tweedale
Dave Marchant, Marchant Consulting
Ron Fowler, Deloitte & Touche
Michael Green, Deloitte & Touche

ABSENT: Nicholas Alioto, Kenosha Unified School District #1
Lynn Davis, CESA #6
Jerry Runice, Berlin Area School District
Laura Stauffer, Waukesha County
Patricia Stevens, Town of Grand Chute

Kevin Houlihan called the meeting to order at 9:00 a.m.

Kevin Houlihan welcomed attendees and introductions were made.

The Committee reviewed and approved the agenda for today's meeting. No additional topics were added.

Upon a motion made by Vince Marchetti and seconded by John Rath, it was unanimously

RESOLVED, that the minutes of the Advisory Committee of October 11, 2001 are approved as presented.

Dan Bubolz presented the **Manager's Report**.

Reinsurance Renewal

Dan provided a handout explaining the various layers of excess coverage and premiums. The reinsurance expires on December 31, 2002 and will be rebid this Fall. Of note is the fact that the retention was increased from \$500,000 per occurrence to \$2 million per occurrence. A study was completed last year to determine the best level of retention. John Rath requested a copy of the study from OCI.

Status of Valuation RFP

Dan advised that a complete copy of the RFP is on the Vendor Net web site. Vendors interested in responding to the RFP must have their replies in by May 24, 2002. A new contract will be awarded with an effective date of July 1, 2002. Any comments regarding the Valuation RFP and services should submit comments to April Zelinski by June 1, 2002.

Marathon County Litigation

Dan explained that this litigation between Marathon County and the LGPIF involves issues of owned versus non-owned property, and questions of insurable interest. Coverage for the loss was denied, and litigation ensued. The exposure is approximately \$1.1 million for building repairs and \$1.6 million for contents. Reserves have been established at \$3 million. This loss is subject to an SIR of \$500,000.

While statutes dictate that only local units of government may purchase coverage from the LGPIF, the policy does not state that. It was agreed that the topics of Contractual Insurance Issues and an Appeals Process would be discussed at the next meeting.

Flood Insurance Program

Dan explained that a nomination is required to be considered for participation in the Write Your Own project of the National Flood Insurance Program. The NFIP advised that they would still consider the LGPIF even if no nomination for the Fund was received. However, Dan requested that anyone involved with an industry group who could make a nomination of the Fund do so to better the Fund's chances at participation.

April Zelinski and Dennis Tweedale, along with Greg Grunow and Carrie Nash, presented the **Administrator's Report**.

Transition

April explained that the transition from the prior Administrator to ASU officially began with notice of the contract award being upheld on October 5, 2001. A 90 implementation schedule and detailed assignment plan was provided to the Committee for information purposes only.

Additional handouts regarding the transition included:

- Description of the 3 areas of Administration, and where and how those functions will be carried out.
- An Organizational Chart of the new Administration Team.
- A Directory of the ASU Team.
- A List of Field Adjusters and territories.
- A copy of the first Newsletter.

April advised that they intend to publish the second newsletter this Summer and asked the Committee to submit topics or ideas to her or her staff.

Claims

1. Activity Report

April presented several charts and graphs explaining claims activity.

- a. Overview of claims activity for fiscal years 2000, 2001 and first six months of 2002. Of interest is the spike in claims activity in 2001 due to wind storm claims. Currently, activity is annualizing at less than expected.
- b. Analysis of 5 years of data and projections made by ASU, delineating the projected losses by type, severity and frequency.
- c. Third quarter activity (ASU's first 90 days) with 680 claims reported, broken out by type of loss and entity.
- d. Third quarter reserve activity by type of loss and entity.
- e. Time lag report of claims reported to ASU comparing the number of days to report a claim following an occurrence since policyholders were asked to report claims sooner. Improvement was significant with time lags decreasing from an average of 138 days to only 18 days.

2. Use of New Claims Form

April reviewed the information that has been provided to policyholders, including a new claims form to report losses. This form is available on the LGPIF web page as a Word or Adobe template. She asked for any feedback on the use of

the form and improvements that can be made. Dan Bubolz commented that OCI is interested in providing an interactive form on the web sometime in the future.

3. Claim Issues

April presented a list of six claim issues that have been identified and that the Administrator and LGPIF would like assistance in addressing. Kevin Houlihan noted that he would be seeking volunteers to serve on a sub-committee.

Policy Administration

1. Activity Report

Dennis Tweedale presented several charts and graphs explaining where the program is at as of March 31, 2002.

- Active policies in force by type of entity.
- Active amounts of coverage in force by type of entity.
- Active amounts of premium in force by type of entity.
- New business written in the third quarter. 24 new policies were written with additional premium to the Fund of \$158,815.
- Policies cancelled in the third quarter. 9 policies were cancelled for total premium loss of \$11,878.
- Work in Process from January through March 2002. Of interest, 36 new quotes were given, 8 have been accepted, and 22 are still considering joining the Fund.
- Policy counts by month.
- 5 year historical view of Insurance in Force, Annual Written Premium, and Number of Policies.

2. Policy Wording Issues

Dennis presented six issues identified by staff regarding policy language. Kevin Houlihan noted that he would be seeking volunteers for a sub-committee to work with the Administrative staff on these issues.

3. System Issues

April Zelinski explained how ASU is using a different approach to capturing data by integrating activity between their Claim Management system, OCI's ProInsure system, and Wismart, the State's treasury system. Automated sharing of data should increase data integrity, reduce errors and increase efficiency.

Loss codes used by the prior Administrator will continue to be used through this fiscal year at which time expanded and more detailed codes will be implemented.

Policyholder Surveys

April reviewed the old Policyholder survey and a proposed new survey program. Surveys would be taken to evaluate the performance of both the claims and policy services departments. The objective would be to obtain objective, quantifiable data to be shared with the Committee and policyholders. The criteria for soliciting a survey is:

Claims Dept.

Incurred loss greater than \$50,000

File open greater than 6 months

Policy Services Dept.

At renewal

Randomly with other service, i.e., endorsement

Random, but no more than quarterly

Dan Bubolz noted that the new survey forms would be posted on the Fund's web page so a policyholder could provide feedback at any time.

The Committee agreed that ASU should implement the new survey program and report back at the next meeting.

Dave Marchant presented the **Financial Report**. Dave commented that the report is a compilation, not an audit, and is performed under OCI accounting principals. He reviewed both a summary and detailed Balance Sheet through the second quarter, December 31, 2001. He noted that primary assets are bonds managed by the State Investment Board. He further noted that surplus has decreased to \$18 million. Dave also reviewed Income Statements noting that they are consistent with prior years with operating expenses being quite steady. The first quarter of the 2002 fiscal year was not good due to high level of claims payments.

Dan Bubolz introduced guests, Ron Fowler and Michael Green of the Chicago office of Deloitte & Touche to review and explain the results of the **Actuarial Report** dated April 2002. The study focused on four coverage areas: Building and Contents, Burglary and Theft, Inland Marine, and Auto. The largest discrepancy in rate adequacy was noted in the area of Building and Contents. Although a rate increase of 24% was taken on July 1, 2001 for Building and Contents, the rate inadequacy in this specific area would require an increase of 88%. An overall recommended increase, including all coverage areas, of 56% was the result of the study.

The actuarial study pointed out several items:

1. Current surplus is at \$18 million, and current annual premiums at \$14 million. Any rate increase of less than 100%, implemented as of 7/1/02, will result in a decrease in surplus in 2003.
2. In 2003, with no rate increase, for Building and Contents alone, losses are expected to reach \$17.6 million, while premiums will only be a little more than \$9.4 million.
3. Building and Contents deductible credits need to be structured so they will create incentives for policyholders to retain more risk.

The Committee discussed the study results at length. It was unanimously agreed that a rate increase is needed to protect the Fund from a rapidly declining surplus. The original plan discussed last year to take equal annual increases of 24% for three years has been determined by the actuaries to be inadequate to maintain current surplus levels. The issues and concerns raised by the Committee included:

- Desire to study this information more thoroughly before agreeing to a larger increase than expected;
- Need to incorporate the larger increase in their budget structures since budgets are already fixed for this fiscal year;
- Identify an appropriate surplus target desired by the Fund;
- Determine the level of property value on which to base rates (90% v. 100%); and
- Agree on deductible credits in conjunction with the 1/1/03 rate increase.

Various options were discussed from delaying the increase to implementing the actuary's recommendation to phasing in different levels of increases.

Upon a motion made by John Keller and seconded by Vince Marchetti, and with the addition of a friendly amendment made by Glinda Loving and accepted by John Keller, by a majority vote it was

RESOLVED, that the Fund would implement a 24% overall increase in premium effective July 1, 2002, and appoint a sub-committee to make further rate increase, deductible credit and surplus recommendations, with an additional rate increase to be effective January 1, 2003.

Kevin Houlihan reviewed the topic of **Committee & Sub-Committees Participants and Status**. Kevin advised that Connie Fisher of Chippewa County expressed interest and has been invited to participate on the Advisory Committee. He noted the history of the Advisory Committee as being completely voluntary. Discussion ensued regarding the lack of specific guidelines regarding number of members, objectives or operating structure.

Upon a motion made by Vince Marchetti and seconded by John Rath, it was unanimously

RESOLVED, that a 2nd Vice Chair position is created with an appointment to that position to be made today.

Upon a motion made by John Rath and seconded by John Keller, it was unanimously

RESOLVED, that Glinda Loving is appointed to the position of 2nd Vice Chair of the Advisory Committee.

Kevin advised that current sub-committees include a Loss Control Committee consisting of Carole Charles, Chair, Barb Wegner, and Nick Evgenides. Additionally, there has been a Flood Committee and Reinsurance Committee.

Kevin Houlihan appointed a Rate Committee as follows:

John Rath, Chair
Carole Charles
Glinda Loving
Nick Evgenides
Dave Marchant
OCI Staff
ASU Staff

Kevin also appointed a Claims/Policy Issues Committee:

Vince Marchetti, Chair
John Rath
Harold Reckelberg
John Keller
OCI Staff
ASU Staff

April Zelinski volunteered to provide information to the Committee at the next meeting regarding organizational structure, and to research records regarding the historical formation of the Advisory Committee.

Nick Evgenides agreed to defer the topic of **Mold Claims & Settlements** as this is an item the newly formed Claims/Policy Issues Committee has been asked to address.

Nick Evgenides discussed the **Length of Time to Receive a Settlement Draft from LGPIF**. He notes that he is receiving claim checks very quickly now and wondered what had changed. Dan Bubolz and Eileen Mallow both advised that nothing had changed at OCI. The only difference is a new Administrator in place since January 1, 2002.

Nick Evgenides asked about **Regular Claim Reports to Policyholders**. He wondered if there were any plans to provide loss run data at least annually to policyholders. April Zelinski asked Nick to provide some specifics on what data he would like to see in an annual report and ASU would work with the Fund to make a recommendation on providing such information.

A **Special Meeting of the Advisory Committee** will be held on Tuesday, August 20, 2002, beginning at 9:00 a.m., at the Engineering Building, City of Madison.

Upon a motion made by John Keller and seconded by Nick Evgenides, it was unanimously

RESOLVED, that the meeting of the Advisory Committee is adjourned at 1:10 p.m.

Respectfully submitted,

April Zelinski

Date

ATTEST:

Kevin Houlihan, Chair

Date